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Subject: 10-02-005 Update from PG&E and SCE

Disconnection OIR Proceeding 10-02-005

All,

This letter is written on behalf of Pacific Gas & Electric Company (PG&E) and Southern California Edison Company (SCE) to follow up on the letter we sent to all parties on August 18, 2010.

In that letter, we indicated that we would submit a settlement proposal in approximately three to four weeks. Since that time, Rulemaking 10-02-005 has developed such that PG&E and SCE are no longer in the position to tender a proposal. While we initially intended to prepare a settlement proposal, many of our resources have become fully engaged in responding to the various Phase II issues identified in the Administrative Law Judge's Ruling, as well as continuing to implement the orders contained in the Phase I Decision by October 1, 2010. The resources needed to develop a settlement proposal are the same resources that must prepare responses on each of the issues presently before Phase II of the proceeding and implement the orders contained in the Commission's Phase I Decision.

Additionally, PG&E and SCE have continued to review the cost issues associated with developing a parallel settlement proposal. The costs are significantly higher than originally expected and the settling parties' failure to provide for recovery of operation and maintenance costs gives PG&E and SCE significant concern. For these reasons, PG&E and SCE have elected to move forward in an effort to resolve the outstanding issues in Phase II of Rulemaking 10-02-005 and each utility's respective General Rate Case.

Please do not consider this an indication that PG&E and SCE are unwilling to continue to work with each of you in a cooperative manner. We are very interested in continuing to work together to explore and implement policies, guidelines, and procedures that strike a balance between serving customers struggling in the economic crisis and minimizing the cost impacts to all customers.

Should you have any questions, please feel free to call.

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